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BEFORE THE ARIZONA CORPORATION CC

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AZ CORP COMMISSION
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GARY PIERCE- Chairman
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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01345A-11-0224

**STAFF'S NOTICE OF FILING
RESPONSIVE TESTIMONY**

Staff of the Arizona Corporation Commission ("Staff") hereby files the Responsive
Testimony of Steven M. Olea and Howard S. Solganick.

RESPECTFULLY SUBMITTED this 25th day of January 2012.

Arizona Corporation Commission

DOCKETED

JAN 25 2012

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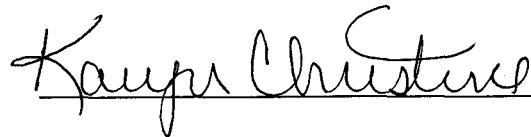
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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

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RETURN)
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DOCKET NO. E-01345A-11-0224

RESPONSIVE TESTIMONY

IN SUPPORT OF

THE SETTLEMENT AGREEMENT

STEVEN M. OLEA

DIRECTOR

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 25, 2012

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SECTION I - INTRODUCTION

Q. Please state your name and business address for the record.

A. My name is Steve Olea, and my business address is 1200 West Washington Street, Phoenix, Az. 85007.

Q. Are you the same Steve Olea who pre-filed testimony on January 18, 2012?

A. Yes.

Q. What is the purpose of the testimony that you are providing at this time?

A. This testimony is intended to respond to certain statements made in the filings of other parties.

SECTION II - RATE CASE MORATORIUM

Q. Please discuss the Base Rate Stability provision of the Settlement Agreement.

A. Part II of the Settlement Agreement contains a Base Rate Stability provision that provides for a period of base rate stability for APS. Specifically, the Base Rate Stability provision states that APS will not file its next general rate case prior to May 31, 2015. Further, APS agrees that no new base rates resulting from APS's next general rate case will be effective before July 1, 2016.

Q. How important was it to Staff to have this Base Rate Stability provision in the Settlement Agreement?

A. Having this Base Rate Stability provision in the Agreement was critically important to Staff as a means of balancing the interests of customers while providing APS with adequate revenue to allow the Company to provide safe and reliable service at rates that are fair, just, and reasonable.

1 **Q. Which parties have filed testimony in partial opposition to the Settlement**
2 **Agreement?**

3 A. The Southwest Energy Efficiency Project ("SWEEP") and the National Resources
4 Defense Council ("NRDC") have both filed testimony in partial opposition to the
5 Settlement Agreement because they would both rather have full decoupling implemented
6 at this time rather than the Lost Fixed Cost Recovery ("LFCR") mechanism that is
7 provided for in the Settlement Agreement.¹ However, only SWEEP has filed testimony
8 opposing the Base Rate Stability provision contained in Part II of the Settlement
9 Agreement. SWEEP witness Schlegel's January 18, 2012 testimony in partial opposition
10 to the Settlement Agreement, at pages 6-7, recommends shortening the Base Rate Stability
11 provision to three years.

12
13 **Q. How do you respond to SWEEP's criticisms of the proposed four-year rate case**
14 **moratorium?**

15 A. SWEEP attempts to characterize the moratorium as limiting the Commission's ability to
16 develop policy between rate cases. I respectfully disagree because of the design of the
17 LFCR.

18
19 **Q. How does the design of the LFCR enable the Commission to change policy between**
20 **rate cases?**

21 A. The LFCR is designed to allow APS to recover fixed costs that are not recovered due to
22 reductions in volumetric sales required by the Commission's energy efficiency
23 requirements or distributed generation requirements. If the Commission were to increase
24 the requirements under these programs, the LFCR would provide for APS to recover the
25 lost fixed costs attributable to the increased requirements. By contrast, if the Commission

¹ Staff witness Mr. Howard Solganick responds to the SWEEP and NRDC opposition to the LFCR provisions in the Settlement Agreement.

1 were to reduce or eliminate these requirements, the LFCR would appropriately decrease to
2 correspond to the new requirements. In summary, the LFCR provides the Commission
3 with flexibility to change these program requirements while at the same time providing
4 APS an opportunity to recover its lost fixed costs due to these programs.

5
6 **Q. Does the proposed Settlement Agreement propose that APS may not seek rate relief**
7 **under any circumstances during the moratorium?**

8 A. No. The proposed Agreement contains a provision that allows APS to seek rate relief in
9 circumstances that would constitute an emergency. I would note that APS has not been
10 reluctant to seek emergency rate relief, having sought such relief both in 2006 and 2009.

11
12 The proposed Agreement defines “emergency” as “an extraordinary event that, in the
13 Commission’s judgment, requires base rate relief in order to protect the public interest.” It
14 goes on to state that neither APS nor any signatory is precluded “from petitioning the
15 Commission to examine the reasonableness of APS’s rates . . . in the event of significant
16 developments that materially impact the financial results expected under . . . this
17 Agreement.” Finally, the proposed Agreement provides that “[n]othing in this provision is
18 intended to limit the Commission’s ability to change rates at any time pursuant to its
19 lawful authority.”

20
21 **Q. Is there a benefit to customers from a rate-case moratorium?**

22 A. Yes. Over the past few years, APS has filed a number of rate cases (e.g. 2005 settlement,
23 2006 emergency case, 2007 litigated case, 2009 emergency case, 2009 settlement). Under
24 these circumstances, customers would benefit from a period of rate stability, and the four-
25 year rate case moratorium is intended to achieve such stability. On the other hand, the
26 Commission is not precluded from changing rates if necessary to protect the public

1 interest. In my opinion, the proposed Agreement strikes the right balance between these
2 interests.

3
4 **Q. What does Staff recommend?**

5 A. Staff recommends that SWEEP's recommendations in partial opposition to the Settlement
6 Agreement as they affect the Base Rate Stability provision contained in Part II of the
7 Agreement be rejected. Part II of the Settlement Agreement provides substantial benefits
8 in the form of regulatory certainty and rate stability and should stand as written, without
9 any of the alterations proposed by SWEEP.

10
11 **SECTION III - PERFORMANCE INCENTIVE**

12 **Q. Does SWEEP address the performance incentive provided in the Settlement**
13 **Agreement?**

14 A. Yes. The Settlement Agreement proposes some modifications to APS's current
15 performance incentive. It also proposes to initiate a stakeholder process for developing a
16 new performance incentive by December 31, 2012. SWEEP would like to speed up the
17 timetable for developing the new performance incentive. Specifically, SWEEP
18 recommends that the stakeholder process begin now so that the new performance
19 incentive can be developed by the middle of 2012.

20
21 **Q. How does Staff respond to SWEEP's proposal?**

22 A. Staff cannot support SWEEP's proposal, primarily because of resource constraints. Staff
23 works hard to process the myriad of cases that comes before the Commission on a regular
24 basis. In recent years, Staff has had to contend with both a growing case load and a
25 shrinking amount of Staff resources. The timing set forth in the proposed Agreement for

1 the development of the new performance incentive provides a schedule that Staff believes
2 it can meet.

3
4 **Q. Are there other considerations that make it impractical to develop a new**
5 **performance incentive by the middle of 2012?**

6 A. Yes. As a practical matter, the timing that SWEEP requests is inconsistent with the
7 anticipated completion date (July of 2012) for this case.

8
9 **Q. What does Staff recommend?**

10 A. Staff recommends that the Commission reject SWEEP's proposals and adopt the
11 performance incentive provisions of the proposed Settlement Agreement as written.

12
13 **SECTION IV - THE BILL IMPACT OF THE PROPOSED SETTLEMENT**

14 **Q. Have any parties specifically addressed the bill impacts of the proposed Settlement**
15 **Agreement?**

16 A. Yes, APS filed a letter on January 9, 2012 regarding the bill impact of the proposed
17 Settlement. I would like to provide Staff's description of the Settlement Agreement's
18 treatment of base rates and the corresponding bill impacts.

19
20 **Q. Doesn't the proposed Settlement provide for a zero dollar increase to base rates?**

21 A. Yes, that is what is provided by Paragraph 3.1 of the Settlement Agreement. The sum of
22 the non-fuel base rate increase (\$116.3 million) and the base rate increase attributable to
23 rate basing certain APS-owned renewable energy assets (approximately \$36.8 million) is
24 equal to the fuel-related base rate decrease of \$153.1 million. The impact to base rates is
25 zero.
26

1 **Q. If there is no increase to base rates, why does APS' January 9, 2012 letter discuss**
2 **impacts to customer bills?**

3 A. There are two reasons why customer bills could experience bill impacts: 1) the PSA
4 surcharge is currently a credit to customer bills; and 2) APS' various adjustors, including
5 the PSA, will reset in early 2013. The impacts of these two factors result in various bill
6 impacts, even though base rates are not increased.

7
8 **Q. Please elaborate on the PSA surcharge credit and how that would impact customer**
9 **bills.**

10 A. The PSA surcharge is currently a credit, so base rates are currently reduced by the amount
11 of that credit. However, when base rates are reset as a result of new rates going into
12 effect, the PSA credit would be eliminated. In other words, establishing a new base cost
13 of fuel and purchased power in base rates usually involves resetting the PSA to zero. In
14 this case, that would mean eliminating the current PSA credit. Although the proposed
15 Settlement Agreement provides for no increase to base rates, the elimination of the PSA
16 credit in 2013 will result in an increase on customer bills.

17
18 **Q. Doesn't the Settlement Agreement provide for a zero bill impact?**

19 A. Yes, the proposed Agreement achieves a zero or slightly negative bill impact for the
20 remainder of 2012 by continuing the PSA credit, instead of resetting it to zero when the
21 base cost of fuel and purchased power is reset in base rates. In essence, APS has agreed to
22 delay recovery of a portion of its fuel and purchased power costs until early 2013.
23 Paragraph 4.1 of the proposed Agreement provides for a zero bill impact until February of
24 2013, at which time APS' PSA will be reset in order to true-up its recovery of fuel and
25 purchased power expenses. This reset is an ordinary feature of APS' existing PSA Plan of
26 Administration.

1 **Q. Does the proposed Agreement provide for any special accommodations for the 2013**
2 **February PSA reset?**

3 A. Yes. APS' PSA Plan of Administration limits changes in the PSA to a 4-mill cap. In
4 other words, APS' PSA may not ordinarily increase more than 4 mills per year. The
5 Settlement Agreement proposes to apply the 4-mill cap only after the calculation of the
6 impact of continuing the PSA credit has been calculated. This will serve to eliminate any
7 under-recovery of fuel and purchased power costs attributable to continuing the PSA
8 credit (to be reset in February 2012) through the remainder of 2012.

9
10 **Q. Will customer bills be impacted by the various resets associated with APS' other**
11 **adjustor mechanisms in 2013?**

12 A. Yes. In addition to the PSA, APS has other adjustor mechanisms, such as the Renewable
13 Energy Surcharge ("RES") and the Demand Side Management Adjustor Surcharge
14 ("DSMAC"). These existing adjustors will also reset in 2013, and there will be a
15 corresponding bill impact (probably an increase) due to these resets. In addition, the
16 Settlement Agreement proposes the LFCR, which is designed to go into effect in March of
17 2013.

18
19 **Q. Are there customer benefits associated with maintaining a zero bill impact through**
20 **the remainder of 2012?**

21 A. Yes. The most obvious benefit is that customers will not experience an increased bill (due
22 to the elimination of the PSA credit) in the summer when customer usage is typically high.
23 Another benefit is that the frequency of bill impacts will be decreased; in other words,
24 instead of having multiple bill impacts associated with the reset of fuel and purchased
25 power costs (one in July of 2012 and another in February of 2013), there will be one (in
26 February of 2013) when the PSA normally resets.

1 **Q. Does Staff have a recommendation?**

2 A. Staff recommends that the Commission adopt the Settlement Agreement as proposed. The
3 Agreement provides substantial benefits for APS, its ratepayers, and the various other
4 parties to this proceeding.

5
6 **Q. Does this conclude your Responsive Testimony?**

7 A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

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RESPONSIVE TESTIMONY

IN SUPPORT OF

THE SETTLEMENT AGREEMENT

HOWARD SOLGANICK

FOR THE

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JANUARY 25, 2012

EXECUTIVE SUMMARY
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-11-0224

My testimony responds to the concerns expressed about the Lost Fixed Cost Recovery ("LFCR") mechanism proposed in the Settlement Agreement and defined by the Plan of Administration as compared to a full per customer revenue decoupling approach.

I also compare electric and gas utilities highlighting differences that suggest that the Commission can approve the LFCR mechanism as reasonable for Arizona Public Service Company.

Staff continues to recommend that the LFCR mechanism be adopted as proposed in the Settlement Agreement.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Howard Solganick. I am a Principal at Energy Tactics & Services, Inc. My business address is 810 Persimmon Lane, Langhorne, PA 19047. I am performing this assignment under subcontract to Blue Ridge Consulting Services, Inc.

Q. Have you previously submitted testimony in regulatory proceedings?

A. Yes. In this proceeding I submitted testimony in regard to Arizona Public Service Company's ("APS" or "Company") decoupling proposal and Staff's proposed Lost Fixed Cost Recovery mechanism ("LFCR") on November 18, 2011, rate design on December 2, 2011, and the Settlement Agreement on January 18, 2012.

Q. For whom are you appearing in this proceeding?

A. I am appearing on behalf of the Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission" or "ACC").

Q. What is the purpose of your Responsive Testimony?

A. My testimony responds to concerns of various parties related to the use of the LFCR mechanism contained in the Settlement Agreement as compared to revenue decoupling.

Q. Have you reviewed specific decoupled rate design proposals in other jurisdictions?

A. I have reviewed proposals for decoupled electric and gas rate designs in Delaware for the Staff of the Delaware Public Service Commission where I also assisted in the pre-implementation education process. I have also reviewed decoupling proposals by gas utilities and offered testimony in Maryland for the People's Counsel and in Michigan for the Attorney General. In addition, I assisted the Staff of the District of Columbia Public

1 Service Commission in the evaluation and implementation of a decoupled rate design for
2 delivery of electricity that resulted in a distribution per customer revenue decoupling
3 regime.

4
5 **Q. What concerns have been expressed by the various parties?**

6 A. Based upon the testimony filed on January 18, 2012, I noted that:

7
8 The Natural Resources Defense Council ("NRDC") is concerned that the Settlement
9 Agreement's support for the LFCR mechanism is inappropriate in light of the Final ACC
10 Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled
11 Rate Structures ("Policy Statement").¹ NRDC is also concerned that the LFCR
12 mechanism for Arizona Public Service Company ("APS") is in variance with the
13 Commission's recent decision in the Southwest Gas Corporation ("SWGAs") case.²
14 NRDC also characterizes the LFCR mechanism as "an automatic rate increase."³

15
16 The Southwest Energy Efficiency Project ("SWEET") also characterizes the LFCR
17 mechanism as "an automatic rate increase."⁴ SWEET is also concerned that full revenue
18 decoupling is important not only for full, enthusiastic utility support of energy efficiency
19 but also for activities that reduce sales but are not or may not be directly linked to the
20 Company's portfolio of energy efficiency programs. This could include utility support for
21 building energy codes; appliance standards; energy education and marketing; state and
22 local government conservation efforts; and federal energy policies.⁵ SWEET is also
23 concerned about the potential for contentious and protracted technical proceedings at the

¹ NRDC Notice of Its Testimony of Ralph Cavanagh In Partial Opposition to the Proposed Settlement at 5:6

² NRDC Notice of Its Testimony of Ralph Cavanagh In Partial Opposition to the Proposed Settlement at 5:16

³ NRDC Notice of Its Testimony of Ralph Cavanagh In Partial Opposition to the Proposed Settlement at 7:12

⁴ Testimony in Partial Opposition to the Proposed Settlement Agreement of Jeff Schlegel, SWEET at 5:41

⁵ Testimony in Partial Opposition to the Proposed Settlement Agreement of Jeff Schlegel, SWEET at 5:24

1 Commission.⁶ Further, SWEEP has expressed concern that “The current system for
2 ratemaking does not fully account for Commission-adopted policies. In particular, it does
3 not account at all for the Electric Energy Efficiency Standard or its impact. Indeed, the
4 test year sales based on an historic test year and used to set rates in this proceeding ignore
5 the energy savings required by the Standard that will be experienced in the years for which
6 the new rates are effective.”⁷

7
8 **Q. What does the Policy Statement say?**

9 A. The Policy Statement did not impose full revenue decoupling, but set forth 14 separate
10 policy statements.⁸ For brevity I have not repeated them here, but provide the following
11 analysis.

- 12
- 13 1. Neither the LFCR or full per customer revenue decoupling is in opposition to this
14 statement.
 - 15
 - 16 2. Neither the LFCR or full per customer revenue decoupling is in opposition to this
17 statement.
 - 18
 - 19 3. The LFCR mechanism in the Settlement Agreement defines all of the factors
20 within the calculation and the only required information is the sales reduction that
21 is provided by the measurement, evaluation and research (“MER”) process, thus
22 creating a high level of certainty.
 - 23

⁶ Testimony in Partial Opposition to the Proposed Settlement Agreement of Jeff Schlegel, SWEEP at 5:39

⁷ Testimony in Partial Opposition to the Proposed Settlement Agreement of Jeff Schlegel, SWEEP at 11:15

⁸ Final ACC Policy Statement Regarding Utility Disincentives to Energy Efficiency and Decoupled Rate Structures
Docket Nos. E-00000J-08-0314 and G-00000C-08-0314, at page 30

- 1 4. The Commission stated that alternative methods for addressing utility financial
2 disincentives could be considered. The LFCR mechanism is one such method
3 which should be considered and adopted by the Commission.
4
- 5 5. The LFCR method does not require excluding or highlighting new customers and
6 their impact. Well-planned energy efficiency ("EE") and distribution generation
7 ("DG") programs can mitigate the impact of customer growth through builder
8 focused new construction standards, education, outreach and incentives.
9
- 10 6. The LFCR proposed in the Settlement Agreement is not a pilot and its Plan of
11 Administration includes a comparison of revenues recovered through the LFCR to
12 those that would have been recovered had APS' revenue per customer decoupling
13 (full decoupling) proposal been adopted.⁹ The Settlement Agreement also
14 provides maximum flexibility and oversight by the Commission to tailor or
15 manage EE and DG programs and the LFCR is responsive to those decisions.¹⁰
16 The Settlement Agreement does not preclude the Commission from suspending or
17 modifying the LFCR mechanism.¹¹
18
- 19 7. The LFCR mechanism does not include, nor require, an adjustment to cost of
20 capital. The implementation of full per customer revenue decoupling in some
21 jurisdictions has been accompanied by a cost of capital adjustment due to the shift
22 of risks from the utility to customers along with the litigation of its magnitude.
23

⁹ Settlement Agreement at 9.10

¹⁰ Settlement Agreement at 9.2

¹¹ Settlement Agreement at 9.11

- 1 8. The Settlement Agreement includes provisions to modify rate designs to make
2 larger customers' revenue streams to be more stable and therefore not be subject to
3 the LFCR.¹² For residential customers an Opt-Out provision has been developed¹³
4 along with the recognition of the stability of the existing Basic Service Charges
5 and demand charges¹⁴. The Settlement Agreement provides for a rate research
6 plan process to evaluate a range of rate related issues.¹⁵
7
8 9. The LFCR provides predictability and a one to one response to sales reductions
9 resulting from EE and DG programs as compared to full per customer revenue
10 decoupling that mixes together sales reductions with potential and variable
11 changes in weather and economic conditions.
12
13 10. The LFCR mechanism does not require or include weather normalization. Full per
14 customer revenue decoupling requires some method to avoid pancaking of the
15 effects of weather (the prior cool summer's revenue increase collected at the same
16 time that a warm summer raises customer consumption and bills).
17
18 11. The LFCR mechanism is an annual adjustment implemented after full review by
19 the Staff and approval by the Commission.¹⁶
20
21 12. The LFCR mechanism is applied to most rate schedules but recognizes those
22 schedules that are inherently stable.¹⁷
23

¹² Settlement Agreement at 9.7

¹³ Settlement Agreement at 9.8

¹⁴ Settlement Agreement at 9.3

¹⁵ Settlement Agreement, Attachment K, page 1 – General Issues

¹⁶ Settlement Agreement at 9.6

¹⁷ Settlement Agreement at 9.7 and 9.8

1 13. The LFCR mechanism is applied to all applicable rate schedules as a single annual
2 adjustment. Due to the diversity of customers and their weather and/or business
3 conditions, full per customer revenue decoupling may require individual
4 adjustments for specific classes.

5
6 14. Both the LFCR mechanism and APS' proposed full per customer revenue
7 decoupling apply the respective annual adjustment across all portions of the
8 revenue stream. The LFCR cannot result in a negative adjustment to higher usage
9 blocks and does not dilute rate designs designed to achieve energy efficiency.

10
11 15. The LFCR mechanism includes a one percent annual cap based upon applicable
12 revenue for the included rate schedules.

13
14 **Q. Does the Policy Statement require the imposition of only full per customer revenue**
15 **decoupling for all Arizona utilities?**

16 A. No. My non-legal interpretation is that the Policy Statement did not make a final
17 prescriptive decision but allows each utility to propose a position and the other parties in
18 that utility's case to offer alternatives. This situation then allows the Commission to make
19 individual decisions for each utility.

20
21 **Q. Are there differences between a gas and an electric utility?**

22 A. With very few exceptions most residential and commercial customers want electric
23 service. For residential customers, electric service is the key to a vastly different standard
24 of living. For commercial customers, electric service is the key to creating a positive
25 business environment and/or business productivity. Except under certain circumstances,
26 there are few alternatives to electric service.

1 Gas utility service is not an irreplaceable need for a residential customer. Natural gas
2 service can provide alternatives for residential space heating, water heating, cooking,
3 clothes drying and decorative lighting. For commercial customers natural gas service can
4 also provide process heat either direct fired or in the form of infrared, steam or another
5 heat transfer fluid. There are a number of alternatives to natural gas service including oil,
6 propane and electricity.

7
8 Due to a trend of increasing furnace efficiency and better building construction, many
9 natural gas utilities are experiencing a downward trend in sales per residential customer.

10
11 **Q. How is this difference manifested?**

12 A. In the United States electric service is almost ubiquitous, while natural gas service is
13 somewhat dependent on population density.

14
15 **Q. What is the impact of these differences?**

16 A. Natural gas utilities can be faced with an imperative to "grow or die". There may be a
17 focus on increasing customer density by soliciting new gas customers along the existing
18 gas distribution system or new development along the existing gas transmission system or
19 encouraging sales of additional gas appliances. This growth can offset the previous use of
20 oil or electricity from many sources including coal, nuclear, gas, hydro, solar or wind.

21
22 Because electric service is ubiquitous, electric utilities can focus on maintaining efficient
23 appliance saturation. It is also harder and more expensive to convert an appliance from
24 electric to gas due to the incremental costs of gas piping and exhaust flues.
25

1 This comparative situation leads to different positioning and therefore different strategies
2 between gas and electric utilities. The gas utility can be more focused on acquiring more
3 gas customers to maintain or increase gas sales to spread fixed customer and distribution
4 costs across a larger customer base. The electric utility has little need to market for new
5 customers as it already has 100 percent of the existing and potential customer locations.
6 The electric utility may benefit without any effort from the introduction of new products,
7 while existing products see efficiency improvements over time.

8
9 **Q. What does this difference in market positioning imply with regard to the LFCR**
10 **versus revenue decoupling?**

11 A. Because an electric utility has no need to build load on its own it can concentrate on using
12 energy efficiency to create "additional" resources to serve new customers at costs lower
13 than by building new generation resources. Therefore, there is no need to adopt a
14 mechanism (revenue decoupling) guaranteed to take back the per customer growth from
15 the electric utility as a punitive measure.

16
17 **Q. Does the recent decision to apply revenue decoupling to Southwest Gas Corporation**
18 **("SWG")¹⁸ require that the Settlement Agreement be modified and reject the**
19 **included LFCR mechanism?**

20 A. No. As I described above there are differences between gas and electric utilities and the
21 future that they face.

22
23 The Settlement Agreement provides for detailed information that can assist in the
24 comparison of the LFCR mechanism to full per customer revenue decoupling.¹⁹

25

¹⁸ See, ACC, Decision No. 72723.

¹⁹ Settlement Agreement at 9.10

1 Just as the Policy Statement recognized that alternatives can exist, approval of the LFCR
2 mechanism as part of the Settlement Agreement will provide a comparison to full per
3 customer revenue decoupling implemented for SWG.

4
5 **Q. Does the LFCR mechanism provide for an automatic revenue increase?**

6 A. The LFCR mechanism only provides an auxiliary revenue source for the utility when sales
7 (and revenues) have been verified to have been reduced. The LFCR mechanism also
8 recovers only distribution and transmission fixed costs, therefore, the LFCR mechanism
9 cannot raise total jurisdictional revenues for the utility and cause a revenue increase. The
10 LFCR mechanism allows the utility to recover verified losses of fixed costs that would
11 have been collected on a volumetric basis.

12
13 Saying this another way, it "... adds no costs to customers' bills; it is a mechanism
14 designed to ensure that utilities recover only the fixed costs of service that the
15 Commission has reviewed and authorized in the previous rate case."²⁰ While NRDC
16 focused this statement on revenue decoupling it applies equally as well to the LFCR
17 mechanism.

18
19 Under both full per customer revenue decoupling and the LFCR mechanism, growth in
20 customers is not affected (or reclaimed from the utility) because revenue decoupling is
21 implemented on a per customer basis and the LFCR is based on proven sales reductions
22 from EE and DG programs.

23

²⁰ NRDC Notice of Its Testimony of Ralph Cavanagh In Partial Opposition to the Proposed Settlement at 10:11

1 **Q. Is APS negatively affected by not including generation costs within the LFCR**
2 **mechanism?**

3 A. No. The sales forecast provided by APS and cited in my testimony indicates that over the
4 term of the Settlement Agreement sales are expected to increase; therefore, APS has no
5 loss of fixed costs at the generation level. APS also has opportunities for off system sales
6 if needed or necessary. Further, in its original filing APS proposed the AG-1 schedule
7 which would allow the offset of a maximum of 200 MW of load.

8
9 **Q. Does the LFCR mechanism preclude or discourage an electric utility from**
10 **supporting appliance efficiency standards, stronger building codes or forms of**
11 **customer education that will reduce consumption?**

12 A. No. A well-constructed EE program can include efforts to lobby for better standards or
13 provide customer education as other means of reducing energy consumption, although
14 they may require a longer time horizon to achieve results. There are engineering and/or
15 statistical methods to document the results of these programs.

16
17 **Q. Does the review of the MER results have to be a contested and expensive proceeding?**

18 A. No. All of the parties to this proceeding demonstrated a very positive working
19 relationship during the settlement process. I also found APS's attitude open and positive
20 during the formal and informal technical (discovery) conferences. These examples serve
21 to demonstrate that the verification process does not have to be litigious.

22
23 The Settlement Agreement includes provisions to make the annual review process more
24 efficient and effective. In the case of DG, the Settlement Agreement provides for a shift

1 from estimates to firm metering, which will remove any contention. APS will be
2 developing a technical manual for its EE programs.²¹

3
4 **Q. Does the LFCR mechanism account for the impacts of the Electric Efficiency**
5 **Standard?**

6 A. The LFCR mechanism is designed to recover the fixed costs lost due to the sales
7 reductions resulting from the EE and DG programs approved by the Commission. The
8 LFCR operates cumulatively from the rate effective date forward.

9
10 **Q. Do you recommend the adoption of the Settlement Agreement including the LFCR**
11 **mechanism?**

12 A. The selection of an LFCR mechanism is the result of the input of a number of parties to
13 this Settlement Agreement. All parties had the opportunity to consider alternatives and all
14 parties were cognizant of the Policy Statement and the SWG Decision during the
15 negotiation of the Settlement Agreement.

16
17 The LFCR mechanism does not provide for an automatic revenue increase and the LFCR
18 Adjustment is subject to review by the Staff and approval by the Commission. The
19 Commission has the right to suspend, terminate or modify the LFCR mechanism.

20
21 Nothing in the LFCR mechanism precludes a utility from sponsoring programs that would
22 raise efficiency standards and building codes or provide customer education designed to
23 encourage efficiency and documenting the resulting sales reductions.

24

²¹ Settlement Agreement at 9.15

1 The existing MER evaluation process documents sales reductions and the parties in this
2 case have demonstrated that they can be advocates and also work within technical
3 conferences and negotiations cooperatively.

4
5 For all of these reasons, Staff recommends the Commission approve the Settlement
6 Agreement.

7

8 **Q. Does this conclude your testimony?**

9 **A. Yes.**